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SUBJECT: LEBANON: ENERGY MINISTER VISITS SYRIA (ECONOMIC WEEK IN  
REVIEW, FEBRUARY 25 - MARCH 2, 2008)

CONTENTS

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-- ACTING ENERGY MINISTER VISITS SYRIA, LEBANON SHIFTS TO NATURAL  
GAS SOON  
-- DEPUTY ASSISTANT SECRETARY OF TREASURY VISITS BEIRUT  
-- REPORTS ON SAUDI WITHDRAWAL OF INVESTMENTS FROM LEBANON  
QUESTIONED  
-- RESIGNED LABOR MINISTER TEMPORARILY RESUMES ACTIVITIES  
-- UNEMPLOYMENT RATE ESTIMATED AT 25 PERCENT  
-- FOREIGN INVESTMENT IN 2007 REACHES \$3 BILLION  
-- CDA SISON DISCUSSES ECONOMIC AND COMMERCIAL ISSUES WITH LEBANESE  
BUSINESS SECTOR  
-- NATIONAL SOCIAL SECURITY FUND ARREARS TO HOSPITALS REACHES \$250  
MILLION  
-- TOURISM SECTOR LOSSES SINCE 2005 ARE HUGE, NEW TRAVEL WARNINGS  
WILL CONTINUE TO AFFECT THE SECTOR  
-- GERMANY FUNDS ENVIRONMENTAL PROJECTS

ACTING ENERGY MINISTER VISITS SYRIA,  
LEBANON SHIFTS TO NATURAL GAS SOON  
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[1](#)1. (SBU) Acting Energy and Water Minister Safadi on February 23 attended the Arab Energy Ministers meeting in Damascus, hosted by Syrian PM Naji Ottari, to discuss the Arab gas pipeline project. Safadi also met on the sidelines with Syrian Minister of Electricity Ahmad Khaled Al-Ali to discuss the purchase of electricity from Egypt and Jordan, to be routed through Syria. This is the first visit to Syria by a minister of the Siniora cabinet since 2005 and was perceived by some in Lebanon as Syrian recognition of the Siniora cabinet. Safadi received PM Siniora's approval to attend the meeting and briefed him after.

[1](#)2. (U) Safadi announced on February 27 that the Deir Ammar power plant (north Lebanon) will start operating on natural gas in five months, thus saving \$200 million of the GOL's annual energy bill. He also mentioned the possibility of an additional 450 MGW power plant to be built next to Deir Ammar, and the construction of a power plant in Selaata (north Lebanon), both operating on gas, prior to closing the Zouk power plant (north of Beirut), thus producing electricity using more environment-friendly energy. Safadi revealed that the Ministry of Energy and Water is considering building transmission lines to enable Lebanon and Syria to import electricity from Egypt through Jordan, and mentioned that some Arab countries are discussing power production using nuclear energy, with a meeting

expected on March 18 in Libya on this subject.

DEPUTY ASSISTANT SECRETARY  
OF TREASURY VISITS BEIRUT  
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13. (SBU) During a one-day visit to Beirut on February 25, Deputy Assistant Secretary of Treasury Andrew Baukol met with Ministers of Finance and Economy, the Central Bank Governor, head of the Banking Control Commission, top bankers, the Chairman of the Telecom Regulatory Authority, and senior IMF officials. Discussions revolved around the possibility of an IMF stand-by agreement, progress on the implementation of economic reform and privatization, macro-financial stability, and banking sector resilience despite the political stalemate. All those who met Baukol urged continued USG support, asking the U.S. to support an extension of the IMF's Emergency Post Conflict Assistance (EPCA).

REPORTS ON SAUDI WITHDRAWAL OF  
INVESTMENTS FROM LEBANON QUESTIONED  
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14. (SBU) The local press reported that Saudi Arabia has withdrawn \$4.8 billion worth of investments from Lebanon over the past two years, according to head of the Saudi Arabian-Lebanese Business Council Al-Hokair, who attributed this "to the deterioration in the level of confidence in the Lebanese economy." On the other hand, board member of the Riyadh Chamber of Commerce and Industry Al-Rusayes indicated that Saudi demand for real estate projects in Lebanon is currently weak, but Saudi investors "are not selling their real estate projects because they hope the situation will improve." According to Gulfnews, real estate projects in Lebanon by Saudi investors exceed \$1.5 billion. Political and banking sources believe the \$4.8 billion could refer to potential Saudi projects, and noted that such press reports might have been lanted to create

political pressure against the government.

RESIGNED LABOR MINISTER TEMPORARILY  
RESUMES ACTIVITIES  
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15. (SBU) Resigned Labor Minister Trad Hamadeh resumed his activities at the ministry on February 26, stating to the press that he was back to pave the way for the election of a new board of directors of the National Social Security Fund (NSSF) that expired on the same day, and to speed up reform at the fund. In 2007, Hamadeh, who is close to but not a member of Hizballah, also temporarily resumed his functions in order to facilitate elections of the members of the board of the General Labor Confederation (GLC). As in that instance, Hamadeh's comeback is seen as a way to safeguard pro-opposition representation (mainly pro-Amal and Hizballah) during an election, in this case for the NSSF board.

UNEMPLOYMENT RATE  
ESTIMATED AT 25 PERCENT  
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16. (U) On February 27, the local press reported that head of the General Labor Confederation (GLC) Ghassan Ghosn questioned unemployment figures presented by the Arab Labor Organization during its latest meeting in Egypt. According to the Organization, the unemployment rate in Lebanon was between eight to ten percent, which Ghosn said was similar to GOL, World Bank, and IMF figures, but did not reflect the reality in Lebanon. Ghosn said "more objective" studies estimated unemployment at 25 percent. (Note: There are no reliable unemployment figures in Lebanon because the GOL shies away from statistics, which might highlight confessional differences. End note.) A study conducted by an independent research firm in 2007 estimated unemployment at 15.14 percent immediately after the July 2006 war.

FOREIGN INVESTMENT IN 2007  
REACHES \$3 BILLION  
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17. (U) Head of the Investment Development Authority for Lebanon (IDAL) Nabil Itani told the Daily Star on February 25 that foreign

investment in Lebanon reached approximately \$3 billion in 2007, up from \$2.3 billion in 2006. Most of these investments were not foreign direct investment (FDI), but purchases of real estate in Beirut, the prices of which have skyrocketed in recent years. FDI through IDAL rose slightly to \$127 million in 2007, up from \$123 million in 2006. IDAL noted an increase in FDI in the industrial and agro-food industries in 2007.

CDA SISON DISCUSSES ECONOMIC AND  
COMMERCIAL ISSUES WITH LEBANESE BUSINESS SECTOR  
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¶18. (U) CDA Sison paid courtesy calls on the board of the Association of Lebanese Industrialists and the Beirut Chamber of Commerce, Industry, and Agriculture on February 26. Discussions included ways to promote trade and investments between Lebanon and the U.S., technology transfer, private sector involvement in government decisions, IPR enforcement, WTO accession, USG assistance to Lebanon, and trade financing. Members of both boards also gave an overview of Lebanon's process of economic reform, challenges facing Lebanese industries (such as high costs of production and unfair competition from neighboring countries), and Lebanon's brain drain. A follow-up meeting will be held on March 13 at the CDA's residence to discuss further steps to promote commercial ties between Lebanon and the U.S.

NATIONAL SOCIAL SECURITY FUND  
ARREARS TO HOSPITALS REACH \$250 MILLION  
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¶19. (SBU) The National Social Security Fund (NSSF) carries one-year old arrears to hospitals amounting to around \$256 million, according to an NSSF board member, 60 percent of which is for the ten largest hospitals in the country. The NSSF has a direct relationship with hospitals; it pays 90 percent of the hospital bills of over one million Lebanese enrolled in the NSSF and their dependents. These arrears accumulated as the NSSF waited for the GOL to settle its debt to the Fund. According to our contact, the arrears from only the government and public institutions to the NSSF amount to about

\$800 million. The Finance Ministry contests this figure; a senior ministry source told us that it had paid the NSSF \$146 million in 2007 to cover all dues up until the end of 2007.

TOURISM SECTOR LOSSES SINCE 2005 ARE HUGE;  
NEW TRAVEL WARNINGS WILL CONTINUE TO AFFECT THE SECTOR  
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¶10. (U) Minister of Tourism Joe Sarkis estimated that losses in the tourism sector since 2005 reached \$3.5 billion per year. Sarkis said he understood why Saudi Arabia, Kuwait, and Bahrain issued warnings last week to their citizens, discouraging them from traveling to Lebanon due to the political and security situation, but hoped the warning would be reversed soon. An-Nahar newspaper on February 27 quoted unidentified sources in the tourism sector stating that this warning will have a large effect on tourism activity, since 30 percent of tourists are from these three Gulf countries, and are responsible for 80 percent of all tourism-related spending.

GERMANY FUNDS  
ENVIRONMENTAL PROJECTS  
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¶11. (U) The German Press Agency reported on February 26 that Germany will give Lebanon a 4.5 million euro grant for rehabilitation of environmental damage caused by the July 2006 war. According to the report, the World Bank estimated the overall cost of environmental damage from the 33-day war at \$729 million. The grant will also finance environmental investments with economic benefits to private enterprises.

SISON